

Business Budgets are Essential Management Tools

For business owners and managers accustomed to working with budgets on a daily basis, it is hard to imagine anyone going into business without a properly structured, working budget. Believe it or not, many one-person operators start their businesses without undertaking this vital exercise. Typically, the business is in a service or sub-contracting area, such as a mobile mechanic, carpenter, concreter or landscaper, or perhaps a home-based on-line business like a virtual assistant or internet entrepreneur.

At this start-up stage with no employees, as long as money is coming in to cover expenses and a wage for the operator, a budget is not a priority. But what happens to the budding business as it starts to grow beyond the capacity of one person to operate it? For an in-demand service, this can happen quite quickly, sometimes within the first year. Suddenly, the owner needs to hire staff, purchase plant and equipment and move out of the home office to proper business premises.

Oops – Maybe We Need a Budget

Now the owner needs to approach a financial institution for a business loan without having some of the basic documents any loan application would require, and one of these is a budget. For many small business operators, this is a watershed moment. To get the loan they need, they are now forced to do what they should have done at the start – get some professional [accounting Brisbane](#) assistance to implement a business plan and a budget. [MSI Taylor](#) is a firm of accountants and business advisors that do this every day of the week.

A typical budget structure for a small business is usually created on spreadsheet software. Every income and expense account is listed down the left hand side of the spreadsheet, and across the top is a series of columns for each month of the year. For extra control over budget spending, having two columns for each month is even better – one for the budget figure and one for the actual figure, once it is known for that month.

Taking Budgeting Seriously

For the budget to be meaningful, it cannot be a crystal ball gazing exercise. Some serious thought must go into the figures to make them as close as possible to the likely outcome. For example, in the income columns, if the business closes down for a month over Christmas, the income for December should be much less than for November and January.

Once the expenses for December are then added and a total generated of the difference between the two, a lack of cash flow will be immediately obvious and therefore indicate that an overdraft will be required. It is much better to approach the bank about an overdraft in August, rather than leave it to mid-November and go cap in hand because the business is in trouble. MSI Taylor works with their business clients to design a budget to suit their individual business.

With the budget done and the owner using the information, it is easy to find savings and use them elsewhere. For example, the owner may look at the budget cost to move to new premises this financial

year. If that move isn't time critical, it may be decided to wait a year and use that money to increase the repayment amount on the business loan. When the time comes for the move, the loan will already be paid and the cost of the new premises will not be a burden.

Budgets are one of the most powerful ways to manage finances, for both businesses and households. Failure is through lack of diligence to include every single income and expense item, spending on items not budgeted for, and not keeping the budget figures accurate and up to date. Go to www.msitaylor.com.au for information about business budgets.

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